

August 2001

MILITARY HOUSING

DOD Needs to Address Long-Standing Requirements Determination Problems



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GAO

Accountability * Integrity * Reliability



United States General Accounting Office
Washington, DC 20548

August 3, 2001

The Honorable Donald H. Rumsfeld
The Secretary of Defense

Dear Mr. Secretary:

One of the pressing issues the Department of Defense (DOD) faces is its outsized and decaying infrastructure, and this problem is prominent in the family housing program. By DOD's estimates, about two-thirds of military housing is inadequate and would require \$16 billion and almost 30 years to renovate or replace using traditional military construction. Efforts to use private contractors to build and operate housing are off to a slow start and may require long-term commitments (50 years or more) from the government. DOD's policy is to rely on the private sector first for housing, but military members that live in private-sector housing and receive a cash allowance have paid \$200 or more monthly in out-of-pocket costs. These additional costs are a significant disincentive for living in civilian housing, and avoiding them appears to be a primary reason that military members choose to live in military housing. In January 2000, the Secretary of Defense announced an initiative to increase allowances for servicemembers living in civilian housing to eliminate, by fiscal year 2005, the additional costs. In a recent report, we noted that about 72 percent of servicemembers prefer civilian housing if cost is not a factor, and concluded that increasing allowances to remove this disincentive would better satisfy the preferences of servicemembers and be likely to increase the use of civilian housing.¹

DOD's Family Housing Program is designed to provide military housing when adequate, affordable private-sector housing is unavailable. DOD recently set out to implement a standard process for determining what housing is needed on its installations. Prior reports by GAO and others have found this process to be flawed because the military services have inconsistently considered the availability of private sector housing (see app. I). In the wake of the initiative to increase housing allowances—which the Department estimated would cost over \$3 billion in incremental costs through 2005—it is critical to have an accurate requirements-setting

¹ *Military Personnel: Higher Allowances Should Increase Use of Civilian Housing, but Not Retention* (GAO-01-684, May 2001).

process underpinning the program to avoid unnecessary housing investments. Thus, we determined (1) whether DOD has implemented a standard process for determining the required military housing based on housing available in the private sector, and (2) how the increase in the housing allowance is likely to affect the need for housing on military installations over the long term.

Results in Brief

DOD has still not implemented a Department-wide standard process for determining military housing requirements, despite calls from Congress, GAO, and DOD's Inspector General. DOD and the services have worked to develop the framework for the process, but technical concerns—such as standards for affordable housing and commuting distance—have stalled its adoption. A requirements-setting process that first considers the housing available around installations would likely decrease the amount of needed military housing. However, according to a recent study, the services appear to want to protect their current family housing inventories, which conflicts with DOD's stated policy of relying on the private sector first for housing. Without an accurate requirements-setting process based on the availability of private sector housing, DOD will continue to have inadequate information with which to make decisions about where it should renovate, build, or seek to privatize military housing.

Increasing the housing allowance heightens the urgency for a consistent process to determine military housing requirements because it is expected to increase demand for civilian housing, and lessen the demand for military housing. From a policy standpoint, increasing the allowance better positions DOD to rely on the private sector first for housing because it removes the financial disincentive to living in civilian housing. Since military members prefer civilian housing if costs are equal, the demand for civilian housing will likely increase as out-of-pocket costs are eliminated. From a management standpoint, considerable evidence suggests that it is less expensive to provide allowances for military personnel to live on the civilian market than to provide military housing. While overall program costs are increasing significantly in the short term to cover increased allowances, DOD could save money in the longer term by encouraging more personnel to move into civilian housing. In the meantime, without an accurate determination of military housing needs, the Department may spend millions of dollars to construct, renovate, or privatize housing that in some locations is unnecessary.

We recommended that you expedite the implementation of a consistent process for establishing military housing requirements and demonstrate

the need for new construction, renovation, or privatization projects, before submitting requests for funding to Congress. The Department reviewed a draft of this report and generally concurred with our conclusions and recommendations. In comments on this report, the Deputy Under Secretary of Defense (Installations and Environment) agreed that a single, consistent requirements-setting process is needed. However, he noted that significant issues—related primarily to service concerns about losing military housing—still need resolution before such a process is adopted. The Department partially concurred with our recommendation that the need for new construction, renovation, or privatization projects be demonstrated before submitting the requests for funds to Congress, indicating that the amount of inadequate housing in the inventory necessitates some investment while the requirements-setting procedures are being developed. While we agree that some new projects may need to go forward, DOD should closely review proposed projects with the aim of limiting new construction, renovation, and privatization projects until valid housing requirements can be determined. Projects submitted for funding in the absence of a clear determination of need based on consideration of available private-sector housing risk spending scarce resources on infrastructure that DOD does not, or will not, need.

Background

DOD's housing management manual states that military-owned, -leased, or -sponsored housing may be budgeted to meet long-range requirements in areas where the local community cannot support the housing needs of military members. Military housing may also be required if available housing in the community has been determined to be unacceptable or if personnel must reside on the installation for reasons of military necessity.² Each service is responsible for determining family housing requirements.

In general terms, the services should determine their on-base housing requirements based on the number of military families at an installation that are seeking housing, minus the affordable and acceptable supply of existing rental housing units available to the military in the private sector. The supply of private sector housing should be calculated through a detailed housing market analysis and should include a count of available houses in the private sector based on the housing allowances for each pay grade, considering family size. An installation has a housing deficit if a greater number of personnel are seeking housing than the private sector

² *DOD Housing Management Manual* (DOD 4165.63-M, Sept. 1993).

can support. Conversely, a surplus of on-base housing occurs if the private sector housing supply is greater than the number of families seeking housing.

DOD has acknowledged the need for further reductions and the streamlining of its infrastructure. In the most recent Annual Defense Report, the Secretary of Defense stated that the Department continues to seek congressional approval for additional rounds of base realignments and closures.³ By eliminating excess infrastructure and consolidating its forces at fewer bases, the Department believes it will be able to spend its resources on forces and equipment critical to its modernization effort. As part of our ongoing Performance and Accountability Series, we reported in January of this year that infrastructure costs continue to consume large portions of DOD's budget. Our recent analysis of DOD's Future Years Defense Program documents for fiscal years 2001-2005 showed that the proportion of resources devoted to direct infrastructure relative to mission has not changed, despite expectations that it would decrease.⁴

DOD Has No Department-Wide Process to Determine Military Housing Requirements

After years of effort, DOD has not yet implemented a DOD-wide process for determining requirements for family housing on its installations. As a result, the Department cannot know with assurance how many housing units it needs and where it needs them and may be investing in infrastructure it no longer needs. The Department has worked to develop the framework for a process to determine family housing needs that requires reliance on the private sector first to house its servicemembers. However, it has not adopted the process because of a lack of consensus across DOD on common standards such as the definition of affordable housing and acceptable commuting distances. Moreover, a recent study by the Center for Naval Analyses indicates that the services seem to be protecting their existing family housing infrastructures because of concerns about a potential loss of military community.⁵

³ *2001 Annual Report to the President and the Congress.*

⁴ *Major Management Challenges and Risks: Department of Defense* (GAO-01-244, Jan. 2001).

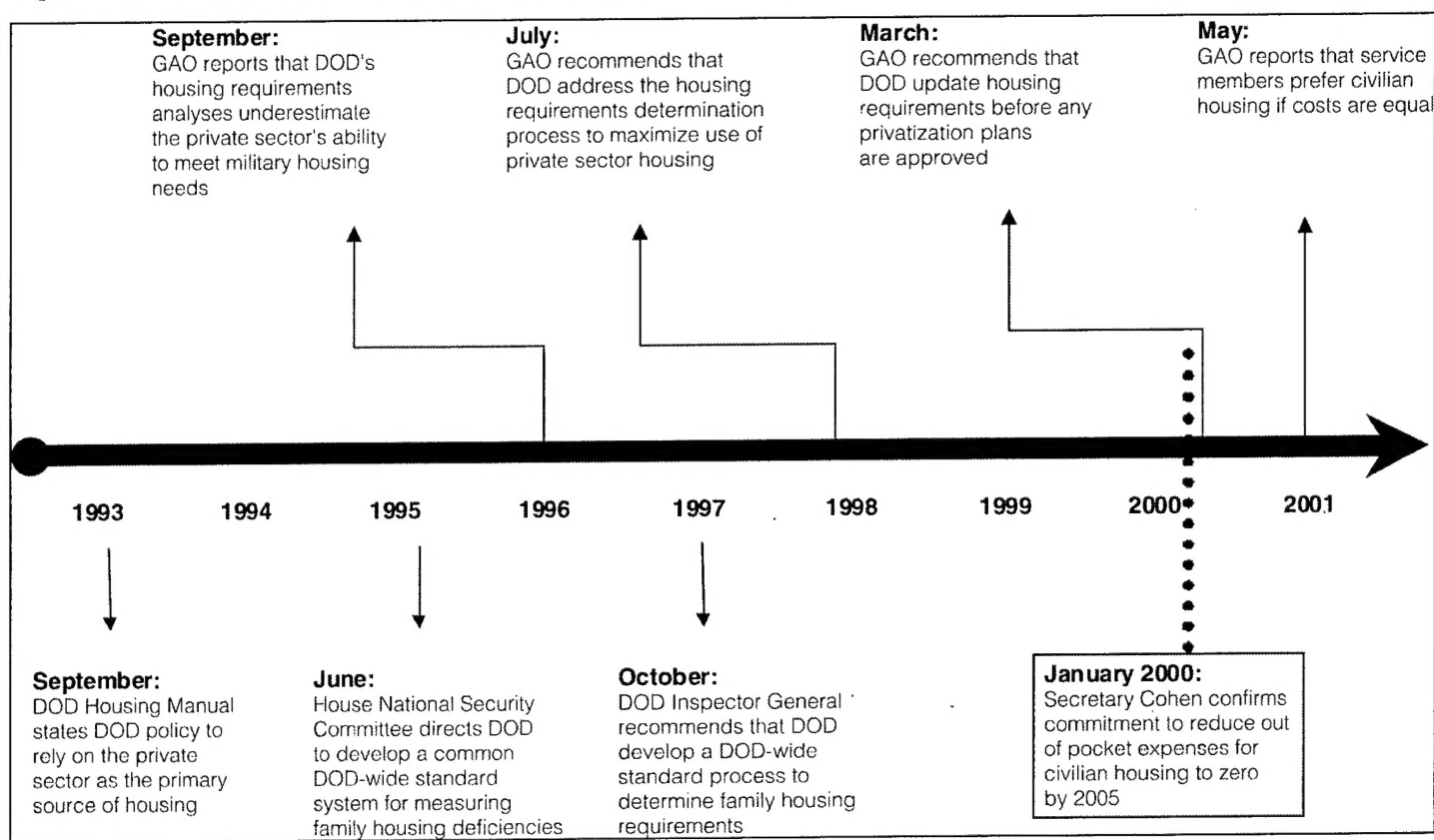
⁵ *Housing Requirements Methodology: An Interim Report* (Center for Naval Analyses, Mar. 2001).

Housing Requirements Foundation Still Unreliable

Over the past several years, the Congress, GAO, and the DOD Inspector General have been critical of the inconsistent methodologies used by the services to determine the availability of housing for military families in private sector areas surrounding military installations. In September 1996, we found DOD had not maximized the use of private sector housing because, among other reasons, the housing requirements analyses often underestimated the ability of the private sector to meet housing needs. The Department's Inspector General recommended in a 1997 report that DOD develop a Department-wide standard process and standard procedures to determine family housing requirements. Further, the Inspector General cautioned that the Department and the Congress did not have sufficient assurances that requests for funds for housing construction on military installations addressed the services' actual needs in a consistent and valid manner (see fig. 1 for a chronology of selected reports concerning military family housing).⁶ Appendix I provides a summary of recent reports concerning the military family housing program.

⁶ *DOD Family Housing Requirements Determination* (Inspector General Report No. 98-006, Oct. 1997).

Figure 1: Chronology of Selected Reports Concerning DOD's Housing Program



Source: GAO.

The Department has acknowledged that fundamental requirements-setting problems linger. In the 2001 Annual Defense Report, the Secretary of Defense reported that

"The Department continues to work on the development of a single model for determining the government-owned housing needs using a set of standard DOD-wide factors along with flexible variables that accommodate service differences. This model will help DOD determine the number of government-owned housing units that need to be constructed or maintained as well as determine the size of the Department's housing privatization projects."

DOD and the services have worked to develop the framework for a single, consistent process for determining housing requirements. The proposed framework would require the military services to conduct a market analysis surrounding each installation to determine the amount of

adequate, affordable housing the private sector could provide. Once this was determined, available housing would be compared to military personnel needing housing and the difference would be the military housing requirement. According to Department housing officials, the proposed process would provide the services latitude in applying service-specific criteria and military judgment in developing housing requirements. For example, the requirement could be adjusted for the retention of housing for key and essential personnel, a percentage of personnel in each pay grade, and for the retention of historic housing. According to DOD housing officials, each of these factors would usually have a relatively small impact on the requirement. In our view, some flexibility in the process is warranted because of the differences in private sector housing around each installation, but DOD must carefully monitor the services use of this flexibility to ensure that they adhere to Department policy to use the private sector first for housing their service families.

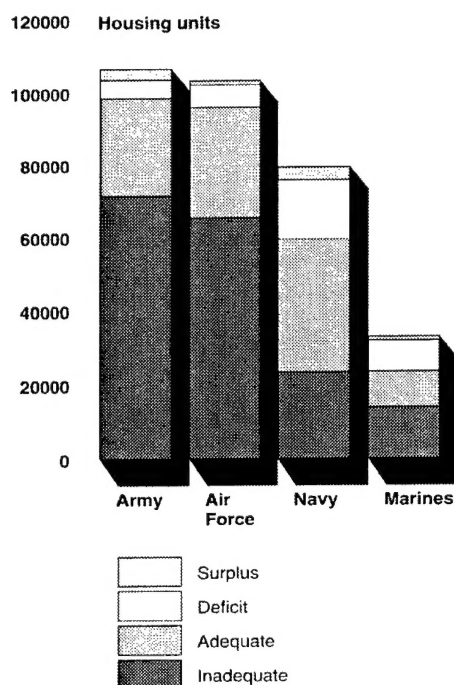
While DOD has worked to develop the framework for a consistent process, Department housing officials stated that several issues remain unresolved. Issues such as what constitutes affordable civilian housing and reasonable commuting distances have slowed the adoption of the process. For example, the Air Force recently reduced the acceptable commuting distance from the 60-minute standard used by the other services to a 30-minute standard. According to a recent Center for Naval Analyses report, the services will need to agree on each element of the new requirements procedure before it can be finalized. The report further stated that the Office of the Secretary of Defense must obtain agreement among the services or be forced to impose the standards.⁷ Department housing officials stated that once a new process is in place, it will take years to update the housing requirements DOD-wide, since the detailed market analyses must be performed base by base. This is of concern, because the Department risks investing valuable resources in housing that it does not need.

⁷ *Housing Requirements Methodology: An Interim Report* (Center for Naval Analyses, Mar. 2001).

New Requirements Process Likely to Identify Unneeded Housing Infrastructure

In late 1999 and 2000, each of the military services submitted Military Family Housing Master Plans to Congress that document deficits in military housing. These plans indicate that, DOD-wide, the services want about 12 percent more military housing units than they have. In addition, the plans show that about two-thirds of the approximately 285,000 aging government-owned houses are in inadequate condition. The housing plans show that the services plan to address inadequate and deficit family housing through a combination of military construction and privatization initiatives. About 3 percent of family housing units were deemed surplus. (See fig. 2 for a status of military family housing units for each service.)

Figure 2: Summary of DOD's Worldwide Military Family Housing, by Service



Note: Deficits exist at some installations, while surpluses exist at others.

Source: Military Family Housing Master Plans submitted to Congress.

The DOD Inspector General and GAO have previously reported that the services use inaccurate housing market analyses when determining the need for military housing. According to a July 1996 Inspector General report, the requirements for seven military family housing projects at a Marine Corps base were unsupported because the number of needed family housing units was unknown. The report recommended that all of

these construction projects be placed on hold and that the Marine Corps perform a new housing analysis to justify the family housing construction projects. Although management concurred with the recommendations, the Marine Corps proceeded with two of the projects.⁸

We reported in 1996 that according to Army and Air Force information, many military installations in the United States had not maximized the use of private sector housing to meet military family housing needs. For example, the Army's housing requirements model estimated that 844 of Fort Eustis' 1,330 family housing units were surplus. If the model had matched housing requirements against adequate private sector housing before matching them against government housing, the model would have estimated that 1,170 of these units were surplus.⁹

The Department still does not maximize the use of private sector housing. As part of its effort to develop a standard requirements-setting process, DOD asked a contractor to perform housing market analyses at selected installations. We reviewed the results of three of these market analyses. Two of the three installations were projected to have substantial surpluses once the private sector's ability to provide housing was factored in. Based on these analyses, over half (1,599 of 3,039) of the military houses at these installations would be surplus. According to DOD housing officials, the third base—a remote, rural installation—had a modest shortage of military housing units.

Surplus military housing is the nearly inevitable result if the Department starts by setting housing requirements based on the availability of private sector housing for its members. Surplus housing identified by the proposed process will be disposed of at the end of its useful life, according to DOD housing officials. During the 5-year transition period, the housing officials said the Department would avoid investments in surplus housing units, but admitted that this would be difficult to do without firm requirements.

Demand for military housing—evidenced by long waiting lists and high occupancy rates—could be seen as evidence that military housing is

⁸ *Quick-Reacting Report on Military Family Housing Construction at Marine Corps Base Hawaii Kaneohe Bay* (Inspector General Report No. 96-200, July 1996).

⁹ *Military Family Housing: Opportunities Exist to Reduce Costs and Mitigate Inequities* (GAO/NSIAD-96-203, Sept. 1996).

needed and that DOD does not have surplus family housing. However, as we have previously reported, waiting lists can be misleading because many personnel on them do not accept military housing when offered because they have already found suitable civilian housing while waiting.¹⁰ One service's policy is to use occupancy rates to adjust the requirements-setting process: for example, if an installation's family housing is filled to capacity, all of it must be needed. This rationale is not consistent with DOD's stated policy of relying on the private sector first. The services—through their referral offices—guide military families to find housing and thus control occupancy. Essentially, the referral offices offer military families a choice between free military housing or an allowance for private sector housing that generally does not cover the total cost of rent and utilities. However, the planned increases in the housing allowance will gradually remove the financial disincentive associated with civilian housing and should make living off base more attractive.

Although the change in the housing allowance program is likely to decrease the demand for military housing relative to civilian housing, there are indications that the services are reluctant to reduce on-base family housing. DOD has recognized the concerns among service leaders that housing military personnel off installations in civilian housing would weaken the sense of military community. However, as we said in our May 2001 report, personnel live in military housing primarily because it is free and they seek to avoid additional out-of-pocket costs associated with living in civilian housing. According to a recent Rand report, members in focus groups “scoffed” at the notion that living in military housing helped them to do a better job. And only about 2 percent of servicemembers selected “like having military neighbors” as the first or second most important factor in the decision to live in military housing. Rand concluded that most military members simply do not see a compelling reason—beyond the economic benefit—to live on base.¹¹

After meeting with each of the services to discuss the methodology for determining housing requirements, the Center for Naval Analyses concluded that a primary goal of the services seemed to be to protect their

¹⁰ *Military Personnel: Higher Allowances Should Increase Use of Civilian Housing, but Not Retention* (GAO-01-684, May 2001).

¹¹ *An Evaluation of Housing Options for Military Families* (MR-1020-OSD, 1999). Rand surveyed military personnel, using a cluster sample of 4,400 military members at 12 bases across the country.

current family housing inventories.¹² The services were concerned about how any change in procedure would affect the number of on base family housing units. The Center reported that the services want to retain their current military housing, regardless of the new requirements-setting process. Reasons for this include the prospect of large amounts of surplus housing, and concerns about possible morale problems resulting from personnel being forced to move into private sector housing. The Center's report concluded that increased service resistance to accept a procedural change that may reduce the number of housing units has delayed the completion of formal DOD guidance.

Increased Housing Allowance Should Result in Reduced Need for on Base Family Housing

The increase in housing allowances has several advantages but makes the need for a DOD-wide requirements-setting process more urgent. The Department could more readily implement its policy to rely first on the private sector to house service families because the additional out-of-pocket costs would be eliminated by the increased housing allowance. Thus, the demand for civilian housing is likely to increase, while the demand for military housing should decrease. While costs for the increased housing allowance appear substantial in the short term, evidence shows that it is cheaper for the government to provide an allowance for private sector housing than to provide a military house on base. Until the Department sets accurate housing requirements DOD-wide, however, it could face mounting costs to maintain its aging and in some places unnecessary housing infrastructure.

The housing allowance increase should allow DOD to better satisfy the preferences of servicemembers. We have previously reported that, based on the results of DOD's 1999 Active Duty Survey, military members prefer civilian housing if costs are equal. Of those currently receiving a housing allowance or living in military housing, about 72 percent said they would prefer civilian housing if costs were equal, while 28 percent said they would prefer military housing.¹³ In its 1999 report, Rand reported that only about 20 percent of military members prefer military housing, and that the predominant reason servicemembers live in military housing is for the economic benefit.¹⁴ Department officials also believe the housing

¹² *Housing Requirements Methodology: An Interim Report* (Center for Naval Analyses, Mar. 2001).

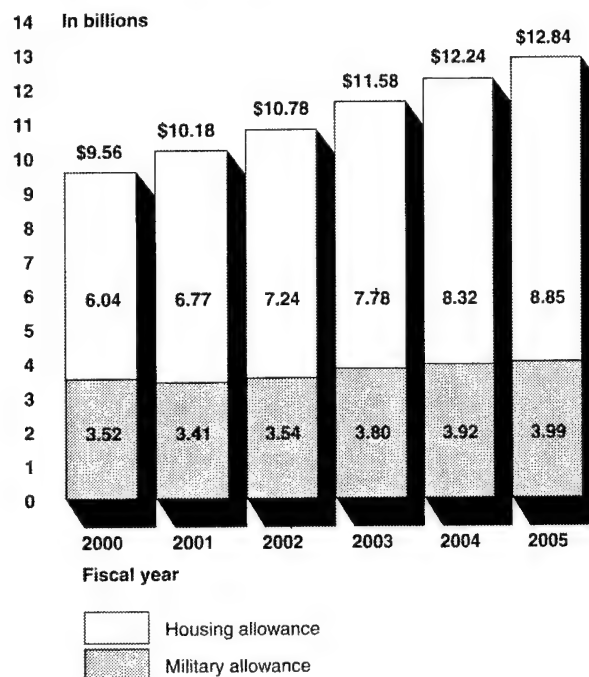
¹³ *Military Personnel* (GAO-01-684, May 2001).

¹⁴ *Rand* (MR-1020-OSD, 1999).

allowance increase will ultimately change the composition of the population in military housing. Rand's analysis indicates that demographic characteristics are the main factor in the demand for military housing. Those who prefer military housing include lower income personnel (especially junior enlisted personnel), those with spouses who do not work outside the home, and those with a greater number of children. Military members with larger families tend to be entitled to a larger residence in military housing than they would be able to afford on the civilian market (housing allowances increase by pay grade).

Regardless of whether DOD fully implements a private sector first policy, the increase in housing allowance will add substantial costs to the housing program in the near term. By 2005, the Department projects total costs to be \$12.8 billion, about 34 percent more than the \$9.6 billion for fiscal year 2000 (see fig. 3). The amount allocated to the housing allowance program will grow from \$6 billion in fiscal year 2000 to over \$8.8 billion in 2005, about a \$2.8 billion increase. The amount allocated for military family housing is expected to grow from \$3.5 billion in 2000 to about \$4 billion in 2005.

Figure 3: Military Family Housing and Allowances Cost, Excluding Privatization (Fiscal Years 2000-2005)



Note: Military housing estimates include costs for construction, improvement, planning and design, operations, maintenance, and leasing of military family housing units.

Source: DOD-provided data.

Considerable evidence suggests that providing a housing allowance is less expensive and more flexible than providing a military house. In 1993, the Congressional Budget Office estimated that DOD saved about \$3,800 per family by paying a housing allowance versus providing military housing.¹⁵ In our 1996 report, we estimated that the military saved almost \$5,000 per unit by paying a housing allowance.¹⁶ In its 1999 report, Rand said that all 12 installations they visited had paid more to provide military housing—from \$3,000 to \$10,000 per unit.¹⁷ Increasing the housing allowance will somewhat narrow the savings that will result from putting personnel in

¹⁵ *Military Family Housing in the United States* (CBO, Sept. 1993).

¹⁶ *Military Family Housing: Opportunities Exist to Reduce Costs and Mitigate Inequities* (GAO/NSIAD-96-203, Sept. 1996).

¹⁷ *An Evaluation of Housing Options for Military Families* (MR-1020-OSD, 1999).

private sector housing instead of family housing on base. Admittedly, these estimates are very rough and are not based on life-cycle costs. However, DOD officials told us that they do not compute life-cycle costs nor do they capture all overhead and other costs associated with military housing, since they are absorbed in many places in the DOD budget. For example, military housing has other significant costs associated with it, including the associated infrastructure like schools, childcare, recreational facilities, and other amenities on installations. Thus, DOD budget officials told us that current funding figures tend to understate the cost of military housing.

While these cost estimates are imprecise, it seems unlikely that the government can provide housing cheaper than the private sector, which is driven by market forces. Moreover, DOD housing officials told us that maintaining family housing is not a core mission for the military services and that family housing has been under-funded for many years. This, in their view, is the reason why so much of the family housing stock is inadequate today.

Conclusions

As the housing allowance increase is phased in—eliminating the financial disincentive to living in civilian housing—demand for military housing is likely to decrease. This decrease in demand for military housing reinforces the need to implement a consistent housing requirements-setting process quickly so that the Department of Defense and the Congress are assured that the housing construction and privatization projects they review are essential. Unless the Department can accurately determine the housing it needs on its installations, it may spend funds for housing it does not, and will not, need.

Recommendations for Executive Action

We recommend that you expedite the implementation of a consistent DOD-wide process for establishing military housing requirements, ensuring that the Department does not spend money on housing it does not need. Specifically, we recommend you demonstrate the need for new construction, renovation, or privatization projects using a process that consistently and adequately considers the availability of civilian housing, before submitting requests for funds for the projects to the Congress.

Under 31 U.S.C. 720, you are required to submit a written statement of the actions taken on our recommendations to the House Committee on Government Reform and to the Senate Committee on Governmental Affairs not later than 60 days from the date of this report and to the House

and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this report.

Agency Comments and Our Evaluation

We provided a draft of this report to the Office of the Deputy Under Secretary of Defense for Installations and Environment for comment. The Deputy Under Secretary generally concurred with our conclusions and recommendations. The Department and the military services have agreed that a single, consistent method for determining military housing requirements is needed. The Deputy Under Secretary noted that the Department has spent a great deal of time and effort developing a process that would implement DOD's long-standing policy of relying on the civilian sector, but that significant issues still need resolution. He cited concerns that a change in the housing requirements process could result in divestiture of thousands of homes before the housing allowance increase is fully phased in by 2005, but noted that this is mitigated because the requirements-setting process under consideration projects private-sector housing availability out 5 years. He indicated that the Department recognizes some demand for on-base housing, but to include an on-base housing demand factor in the housing requirements process would inevitably require DOD to reverse or at least decrease its reliance on the private sector. Rather, the Department's housing inventory must be validated through an auditable process that can project the extent to which the private-sector housing around military installations can support military families. We agree that considering demand for on-base military housing would, in effect, reverse DOD's long-standing policy to rely on the private sector first and should therefore be avoided.

The Deputy Under Secretary partially concurred with our recommendation that the Department demonstrate the need for new construction, renovation, or privatization projects using a process that consistently and adequately considers the availability of civilian housing, before submitting the requests for funds for the projects to Congress. While recognizing that funding the retention or construction of unneeded housing diverts resources from other DOD priorities, he noted that the current amount of inadequate housing argues for continuing military construction investment while the requirements-setting process is finalized. We agree that some military construction may be needed in locations where the private sector cannot support the housing need, but the Department should carefully review projects to ensure that the private sector cannot meet the housing need before requesting funds from Congress. In our view, these long-standing requirement-setting

weaknesses need to be addressed now. Otherwise, DOD risks spending millions on infrastructure that it does not, or will not, need.

Scope and Methodology

To determine whether DOD has implemented a standard process for determining the need for military housing based on available private sector housing, we held discussions with, and reviewed documents from, DOD housing officials about the Department's efforts to develop such a process. We reviewed numerous past reports, including but not limited to, those from GAO, the Department of Defense Inspector General, and the Center for Naval Analyses documenting problems with the current processes used to establish military housing requirements, and obstacles that must be overcome to implement a standard Department-wide process.

To assess how the housing allowance increase will affect the need for housing on military installations over the long term, we held discussions with, and reviewed documents from, DOD officials of the Under Secretary of Defense for the Comptroller; the Deputy Under Secretary of Defense for Installations and Environment; and the Under Secretary of Defense for Personnel and Readiness. We relied on data from past GAO and Rand reports.

We performed our work from January 2001 through June 2001 in accordance with generally accepted government auditing standards.

We are sending copies of this report to appropriate congressional committees. We will make copies available to others upon request. The report will also be available at <http://www.gao.gov>.

Please contact me at (202) 512-5559 or William Beusse, Assistant Director, at (202) 512-3517 if you have any questions concerning this report. Major contributors to this report were Jack Edwards, John Pendleton, and Matthew Ullengren.

Sincerely yours,

A handwritten signature in cursive script that reads "Derek B. Stewart".

Derek B. Stewart
Director
Defense Capabilities and Management

Appendix I: Recent Reports Concerning Military Housing

Recently, several organizations have reported on the military family housing program. The Congress, GAO, and the Department of Defense (DOD) Inspector General have identified problems with the military services' methodologies for developing housing requirements. Some have recommended that the Department develop and implement a more consistent requirements process. Table 1 provides a summary of the current problems and recommendations that were made to the DOD to improve its requirements.

Table 1: Recent Reports Concerning Military Housing

Title	Findings
<i>Military Personnel: Higher Allowances Should Increase Use of Civilian Housing, but Not Retention</i> (GAO-01-684, May 2001)	In May 2001, we reported that because 72 percent of military personnel responded that they would prefer to live in civilian housing if costs are equal, the Department's initiative to increase the housing allowance for personnel that live in civilian housing should satisfy servicemembers' preference for housing. As a result, DOD should be in a better position to implement its stated policy of relying on the private sector first for housing.
<i>Housing Requirements Methodology: An Interim Report</i> , Center for Naval Analyses (CAB D0003196.A2, Mar. 2001)	In March 2001, the Center for Naval Analyses assessed DOD's effort to develop standard military housing requirements-setting process. The report stated that several open issues, such as standards for affordable housing and acceptable commuting distances, remain unresolved between the services. In addition, the report stated that the services appear to want to retain the current level of on base housing regardless of the outcome from the new housing requirements-setting process.
<i>Military Housing: Continued Concerns in Implementing the Privatization Initiative</i> (GAO/NSIAD-00-71, Mar. 2000)	In March 2000, we reported that although initial privatization plans were aggressive, actual progress had been slow. Some progress had been made in developing an integrated housing strategy, but the Department had not yet balanced the various housing options (military housing, housing allowances, and privatization). At that time, DOD had just announced the proposal to significantly increase the housing allowance. We reported that this proposal made addressing lingering requirements problems even more important because the services could not be assured that they were constructing, revitalizing, or replacing housing only at installations where this was needed. We recommended that the Secretary of Defense require that assessments of housing requirements be updated before any privatization projects were approved.
<i>An Evaluation of Housing Options for Military Families</i> , RAND (MR-1020-OSD, 1999)	In 1999, Rand reported that DOD should consider decreasing military housing by encouraging military members to live off base in private sector housing. Rand found that the primary reason servicemembers choose to live in military housing is the economic benefit. This dominated all other factors including security, proximity to work, availability, better schools, and having military neighbors. Rand concluded that increasing the housing allowance could ultimately be tied to cost savings in operating fewer units on base and avoiding the expense of replacing the existing housing stock.
<i>Military Housing: Privatization Off to a Slow Start and Continued Management Attention Needed</i> (GAO/NSIAD-98-178, July 1998)	In July 1998, we reported that the Department's privatization initiative to construct, revitalize, and maintain military housing was slow in starting, and we raised concerns about the costs and long-term nature of some contracts, up to 50 years in some cases. In addition, we reported that the privatization initiative had not been fully integrated as part of an overall housing strategy to meet DOD's housing needs in an optimum manner and that the Department still had not developed an accurate and consistent housing requirements process. We noted that a more accurate process would show that the communities around military installations could meet the housing requirements for thousands of families. We recommended that the Secretary of Defense direct the services to resolve long-standing inconsistencies in the housing

**Appendix I: Recent Reports Concerning
Military Housing**

Title	Findings
	requirements determination process so that the Department's stated policy of relying on the private sector first to house military personnel could be implemented.
<i>An Evaluation of the Family Housing Requirements Process</i> , Center for Naval Analyses (CRM 97-116, Jan. 1998)	In January 1998, the Center for Naval Analyses reported that the methodologies used by the services to determine the requirements for military construction were seriously flawed and were designed to project a housing deficit.
<i>DOD Family Housing Requirements Determination Audit Report</i> (98-006, Oct. 1997)	In October 1997, the DOD Inspector General reported that each of the services had used different policies, processes, and procedures to incorporate their particular needs into housing planning. The practices varied significantly in cost and did not produce comparable results for determining family housing requirements. The Inspector General recommended that the Deputy Under Secretary of Defense (Installations) develop DOD standard processes and procedures to determine family housing requirements.
<i>Military Family Housing: Opportunities Exist to Reduce Costs and Mitigate Inequities</i> (GAO/NSIAD-96-203, Sept. 1996)	In September 1996, we reported that DOD's policy of relying on the private sector to house military personnel was cost-effective. We estimated that the government spent about \$5,000 less annually for each family that lived in private instead of military housing. Further, we reported that DOD had not maximized the use of the private sector to house military personnel partly because DOD's housing requirements analyses underestimated the private sector's ability to meet military housing needs. We recommended that the Secretary of Defense reduce the level of military housing to the minimum possible level.
<i>National Defense Authorization Act for Fiscal Year 1996: Committee on National Security House of Representatives</i> (Report 104-131, June 1995, at 282, 283).	In June 1995, the House National Security Committee stated its concern that the means of acquiring and improving family housing and supporting facilities for the armed services were not used in a consistent manner. The Committee directed the Secretary of Defense to conduct a study of the standards among the military departments and develop a common Department-wide process to determine military housing deficiencies.

Appendix II: Comments From the Department of Defense



ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

July 30, 2001

Mr. Derek B. Stewart
Director, Defense Capabilities and Management
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Stewart:

This is the Department of Defense (DoD) response to the GAO draft report, 'MILITARY HOUSING: DoD Needs to Address Longstanding Requirements Determination Problems', dated June 27, 2001 (GAO Code 350086/OSD Case 4031).

The Department has reviewed the draft report and its recommendations. The Office of the Secretary of Defense and the Military Services have agreed that a single, consistent method for determining on-base housing requirements is needed. Therefore, we generally concur with the draft report's conclusions and recommendations.

The draft report correctly points out that the Department has spent a great deal of time and effort developing a process that would take advantage of DoD's longstanding policy to rely on the private sector first for our housing needs before constructing or retaining on-base housing. However, while I am encouraged that the Services, up to this point, have agreed on many aspects of the draft process, there are still significant issues that need resolution. More specific discussion of these issues is contained in the attached response to the draft report recommendations.

The Secretary of Defense has stated that the Department should focus its budget priorities on warfighting needs and to look to the private sector for non-core functions, such as housing. Our housing privatization authorities are a major part of this effort, and a well-defined, accurate housing requirements determination process is the foundation upon which we must build.

Thank you for the opportunity to provide comments on the draft report. My point of contact for this action is Mr. Michael McAndrew. He can be reached on (703) 614-5569 or at michael.mcandrew@osd.mil.

Sincerely,

Raymond F. DuBois, Jr.
Deputy Under Secretary of Defense
(Installations and Environment)

Attachment



GAO CODE 350086/OSD CASE 4031

**"MILITARY HOUSING: DOD NEEDS TO ADDRESS LONGSTANDING REQUIREMENTS
DETERMINATION PROBLEMS"**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS**

RECOMMENDATION 1: *The GAO recommended that the Secretary of Defense expedite the implementation of a consistent DoD-wide process for establishing military housing requirements, ensuring that the Department does not spend money on housing that it does not need. (P.10/Draft Report)*

DOD RESPONSE: Concur. While the Military Services and Office of the Secretary of Defense staffs have spent significant time and effort in developing a proposed housing requirements determination model, the issue is still under review. For instance, there are concerns that any housing requirements process should retain housing as long as a demand continues. Additionally, there are concerns that implementation of a change in the housing requirements process would potentially result in divestiture of thousands of homes prior to full implementation of the initiative to eliminate housing out of pocket costs by 2005 and a detailed analysis of this initiative's true impact on housing demand. However, these issues are mitigated by the fact that a new process would factor in its analysis the elimination of housing out of pocket costs because private sector housing availability is projected out 5 years--beyond 2005.

A fundamental issue is how to determine what demand is. As the draft report indicated, DoD has a longstanding policy to rely first on the private sector for its housing needs. Analytically, this translates to measuring demand in the off-base housing rental market, not the on-base housing demand. The Department does recognize some demand for on-base housing units to support key and essential personnel, the historic nature of inventory, and to retain a minimal viable community. Constructing or retaining housing on-base beyond these factors should only be in locations where the private sector housing demand exceeds its supply of housing. The appropriate analysis of housing demand should measure off-base supply and demand factors. To include an on-base housing demand factor in the housing requirements process inevitably requires DoD to reverse, or, at a minimum, decrease its reliance on the private sector. The Department's housing inventory must be validated through an auditable process that can project the extent to which the private sector housing market can support military families around our installations. Where the private sector cannot fully support our need, the Department should construct, retain or privatize for the additional assets needed.

RECOMMENDATION 2: *The GAO recommended that the Secretary of Defense demonstrate the need for new construction, renovation, or privatization projects using a process that consistently and adequately considers the availability of civilian housing, before submitting requests for funds for the projects to Congress. (P.10/Draft Report)*

DOD RESPONSE: Partially concur. Funding the retention or construction of unneeded housing certainly drains resources from other DoD priorities, including military construction funding for housing where privatization does not work. The amount of inadequate housing in DoD's inventory argues for continuing military construction investment while this policy is fully developed and implemented.

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